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Economic Perspective 2

EDUCATION VOUCHERS AND THE PUBLIC INTEREST

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Introduction

Proposals for radical reform in the financing of primary and secondary education through the introduction of some form of voucher scheme, with payments made to parents who, in turn, pay fees to the schools that their children attend, have come in the United Kingdom almost entirely from people who are associated with the right wing of the Conservative Party. It is partly for this reason that members of other political groups, as well as spokesmen of the teachers' unions, have been reluctant to examine the proposals in detail (at least in public), indulging instead in dismissive phrases about "discredited voucher proposals" (Fred Jarvis) and "populist nostalgia" (Peter Smith).

This response is misplaced. There are forms of voucher scheme which are compatible with a wide range of educational objectives, relating (for example) to the level of public funding, to special provision for 'priority' groups (and to the determination of how 'priority' is to be defined) and to the establishment of required minimum standards. The introduction of a voucher scheme would be compatible with increased public funding of education and with special provision to students from areas or groups designated as needing particular help. There are, moreover, some aspects of voucher schemes (or of some types of voucher scheme) which promote objectives (such as greater choice for most people) that should be at least as important to liberals and to democratic socialists as to right wing Conservatives. As things stand at present, however, the only voucher schemes that would be available for consideration, if the electorate should turn out to be favourably disposed

to major educational reform, would be those coming from the Conservative right.¹

The purpose here is not to explore the relative merits of different forms of voucher scheme, but to explain some of the benefits that would be gained by introducing an appropriate form of scheme, to examine the principal objections to vouchers and to consider a central premise of the proposals currently being advocated by the Conservative right, namely that a shift to a voucher scheme permits reduced public expenditure on education.

The need for reform

There would, of course, be little chance of strong support for any radical reform of the educational system unless it was felt that performance in the public sector during the last twenty or thirty years had been distinctly unsatisfactory.

It is undoubtedly difficult to provide compelling evidence about the standard of school performance, partly because there is no agreement about the level of performance that might reasonably be expected from the great mass of Government funded schools, and partly because it is very difficult to establish which are the principal determinants of good and bad performance. But a sense of disquiet is widespread. There are sharp differences of opinion about **what** has gone wrong and **why** it has gone wrong, and there are disputes about the nature of reform required to improve matters. There appears, however, to be a large number of people, of widely differing political views, who think that quite substantial

reforms of one sort or another are required.

Some critics feel that the principal cause of deficiencies in the system has been the failure to spend a great deal more public money on education, but the same critics tend to be uncertain about how much improvement can be achieved by any given increase in expenditure. It is an argument that comes dangerously close to requiring an infinite expansion in expenditure.

The absence of a mass market for educational provision has led many people to behave "as if" education was a free good. Even if resources were managed in an outstandingly effective manner, schools would always be asked to provide more than is possible. In addition to the development of a wide range of intellectual and vocational skills, schools are expected to provide training for citizenship and socially responsible behaviour in an increasingly heterogeneous society. But there must be some means of accepting the **reality** that, under any system, choice is constrained by lack of resources. The question is: who makes that choice, and on what basis? The voucher schemes seek to give the 'consumer' (strictly speaking the parents on behalf of the student) a greater degree of power in determining the choice, and to provide them, through the price mechanism, with a much greater degree of information than is now available about the real costs of various choices.

The problem of choosing among alternative objectives is compounded not only by the very wide range of objectives that a school **might** seek to pursue but by the conflicting views and aspirations of prospective 'consumers'. Some want 'traditional' styles of teaching and discipline but others want any of a half dozen or more quite distinct alternatives. Some want attention concentrated on intellectually demanding subjects, others think priority should be given to vocational activities. There are considerable differences of opinion about the significance that should be attached to sports activities, with some regarding them (in a well-established tradition) as of great importance in preparation for life and others being actively hostile. Divisions about the role of religious education and advice on sexual conduct are deep and sometimes bitter.

If decisions on these matters are made by public authorities (ie the political process), politicians are likely to reflect a desire to avoid open conflict with people who might otherwise vote for them, and this often means that although no one is outraged by the outcome almost no one is really satisfied. A more decentralised system, which would be a consequence of most voucher schemes, would be more likely to provide several quite different types of school, each seeking to attract members of particular constituencies of consumers. This would produce more schools which would offend someone's value judgement (eg to take one of the areas of difference mentioned above: there might be more schools which attach a great deal of importance to sport and more schools attaching very little). But it could well offer a much greater degree of effective choice than is now available, and might produce much better results because 'consumers' are able to pick the type of school most suitable to them, while the school itself would be able to relate its activities to a much more clearly defined sense of purpose.

Resolving problems associated with vouchers

The most straightforward form of voucher scheme is one that provides parents with a voucher equal to the average cost of schooling of a student (of that age) in the Education Authority in which they live. Schools would be dependent on fees for all or a substantial part of their income, and would be able to vary their fees according to the range of services to be offered and their views about the willingness and capacity of the prospective clients to pay fees.

Parents would (in this scheme) be allowed to supplement the voucher if they wanted a broader, or otherwise more expensive, range of services to be offered. The administration of the schools would be decentralised, and decisions about the services to be offered, and the numbers of staff to be employed and additional remuneration to be offered would be the responsibility of the headteacher and the Board of Governors. All schools would be subject to inspection, on much the same terms as at present, and those which failed to meet specified standards would be ineligible for the voucher scheme.

Those schools unable to attract students would be obliged to close, and there would be an incentive for new ones to be established by suitably qualified people who think that efficient management would make them a viable proposition. A school which had a substantial surplus of revenue over costs would be able to use that surplus to increase salaries or improve school facilities in any way deemed appropriate by the managing body.

Few, if any, of the protagonists of a voucher scheme argue that a "full-blooded" scheme of this sort could be introduced immediately, and there has been a good deal of discussion about the most appropriate stages through which it should be approached. It is not, however, practicable in the context of this brief article to deal with the range of suggestions which have been advanced.

There are, I believe, four principal "types" of problem which need to be considered in an assessment of voucher schemes, though the order of priority which different individuals attach to them may vary a good deal.

First, is the effect on costs. If every prospective student is offered a voucher it will mean that state funding will be available for students who would otherwise be in the existing private sector, where the full cost is now met by parents (unless they are part of the quite substantial proportion of the private sector which is already receiving subsidies for one reason or another). Thus, other things being equal, public expenditure on education would have to be increased. The "right-wing" response to this has been two-fold.

It has been argued that much more careful attention to costs will be forced on school management as a consequence of the voucher scheme, and that there will be much greater awareness of alternative ways of organising resources. It would, however, be rash to assume that significant benefits will accrue in the short-run. It is, indeed, likely that during a period of experimentation there will be quite substantial costs of a type that cannot be foreseen. The sensible assumption, I suggest, is that costs will rise for several years, even though the increase may not be as much as would be

expected by people who discount the virtues of the market mechanism.

Another response (from the same quarter) is that parents be offered a voucher which covers less than the full cost of schooling - 75% of the cost has been suggested by Milton Friedman, for the much more prosperous United States, and 80% for the UK by Lord Harris, the General Director of the Institute of Economic Affairs. This would, however, represent an enormous burden on low-income parents. Alternative suggestions that the value of the voucher be closely (and inversely) related to the annual income of parents would further complicate an already complex tax system and would add considerably to the problems of the poverty trap.

An increase in educational funding should not, however, impose an insurmountable barrier to the introduction of vouchers, providing that it was agreed that their introduction would lead to an improvement of the quality of the educational service.

Secondly, critics have been worried that a voucher scheme would lead to deterioration of schools in deprived areas and in sparsely populated rural areas. Most inner-city schools would be unlikely to attract students whose parents could supplement the voucher; they would probably have to undertake a substantial amount of remedial work and it would be reasonable to expect that they would be faced by more than an average share of disciplinary problems. Teachers might fear that in a decentralised system it would be difficult to transfer to other schools (as they can at present) if they spent years in the worthy and arduous but specialised tasks of teaching in schools that have a large proportion of unenthusiastic students.

It may, however, be possible to improve the quality of these schools by offering special incentives to teachers who are able to demonstrate that they can work effectively in these circumstances. This would, however, mean that **more** resources would have to be made available. One way of doing this would be for the Government to designate areas in which schools would receive a supplement, payable directly by the state, for each student enrolled in the school. This would, of course, increase total costs, (at least in the short-run).

A third problem that is frequently raised is that many parents will be unable to make well-informed judgement about the best school for their children. Educational experts find it difficult to assess schools, so it would be surprising if people with little experience of education were not sometimes to make mistakes. The critical question is whether less well-informed parents would be more likely to make mistakes than they do at present. Many people have little effective choice under the present system, and if they are considering changing schools they will be given very little comparative information. With the voucher scheme described here they will have the protection of standards offered by the Inspectorate. Each school competing for students will have a strong incentive to set out very clearly its programme of work and to explain its supposed advantages, and each will have an interest in exposing any real deficiencies in its competitors. In short, the parents should be less likely to make mistakes than is now the case.

The fourth problem concerns members of staff in schools which fail to attract enough students to make them viable. In the long-run, when there has been a great deal of experience in dealing with popular choice in education, it might be reasonable to suppose that the proportion of failures in any one year would be very small and absorption of the more capable teachers elsewhere in the system would not cause severe difficulties. In the short-run, however, there could be a large number of schools faced by substantial loss of students, either because they really are poor schools or because parents have made mistakes. Some of the teachers involved may be poor teachers who really should not be in the system, but many will be capable teachers who just happen to be in a school that has failed. Among these capable teachers there may be a considerable number who will be unable, because there are so many of them looking for a job in the first year or two, to find a place in another school.

Some form of compensation should be made available during a transitional period for teachers who lose their jobs in this way. It will almost certainly be very difficult, if not impossible, to adequately distinguish more from less competent teachers. Total payments for compensation might, as a consequence, be high for a few years.

Conclusion

An adequately worked out and funded voucher scheme would produce substantial benefits: it would encourage innovation and efficient use of resources; it would give the "consumer" a much clearer understanding of the costs of providing educational services; it would provide an incentive for schools (presently existing schools and ones that would be set up after the scheme was introduced) to offer programmes that met the needs of prospective customers, and it would greatly extend the choice of the consumer both by encouraging a much greater degree of differentiation among schools and by making it easier for students to move from one school to another; the most effective schools could expand and the least effective would be obliged to improve or close down.

It is not, however, a reasonable expectation that these benefits would be achieved without a substantial increase in public funding of education for many years after the introduction of a voucher scheme.

The early years of experimentation would inevitably produce failures as well as successes; the more prosperous members of the community would be able to take them in their stride but for lower income groups the effect of local failure could be devastating - there could be substantial areas without a viable school - unless generous provision was made from public funds to cover a variety of contingencies during a (fairly long) transitional period.

The argument here is significantly different from that usually put forward in favour of voucher schemes in the United Kingdom. Voucher schemes are said to have many virtues in their own right, but it is contended that so far from leading to a reduction of public expenditure on education they will require for a considerable period of time an increase, and perhaps substantial one, in public expenditure.

FOOTNOTE

1. The IEA Hobart Paperback No 21, **The Riddle of the Voucher**, by Arthur Seldon offers an excellent introduction to the arguments in favour of voucher schemes that have been put forward in the United Kingdom.